

The Brunt of Tax on Middle Class

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ABSTRACT

In this Research paper an attempt has been made to study and determine the position of Middle class of the country in the current taxation system prevailing in the country. Taxation system in India is undergoing revolutionary changes. Tax holds paramount significance in the economy and in the welfare of the country. Tax is an important source of revenue to the government. Every taxpayer is liable to pay a compulsory charge known as tax. The present paper focuses on the tax burden on the middle Income group person especially salaried class. It is a well-known notion that the middle income group mostly consist of salaried class personals who gets a fixed income in their current account so “they have to pay tax” if they are incurring taxable income. Lower class group is mostly exempted from tax liability whereas higher income group especially business class fills low return. The study also reflects tax effect on individual, salaried income personal and on GDP of the country.

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Introduction

Every country's protagonist class is the middle class but still they are largely ignored. The thriving consumption by the middle class has driven every country's economy to great heights. This class is now considered the biggest factor for the economic growth of the country. Acting as a solid base for the country's productive investment it is also one of the most important catalysts for the elements that trigger a healthy society. They are also considered to be one of the drivers of the of large scale social and economic changes.

Most of the Goods and services are offered and consumed by Middle class and A sizable portion of the tax is collected from the middle class through GST. Any country trying to maintain their political stability has to look after the middle class. According to late Lester Thurow “A healthy middle class is necessary to have a political democracy. A society made up of rich and poor has no mediating group either politically or economically.”¹

Though it is a term which is meagre and obscure . To really understand the term middle class it requires a certain amount of prudence. Basically middle class falls in the middle of the societal hierarchy and is between the middle and the upper class. It is a term which basically cannot be studied in isolation but has to be studied in reference to the poor and the rich class. As previously stated the perfect definition of the middle class is not stated in strict terms but the World Bank and the Organisation for Economic cooperation and social Development considers people living less than \$2 a day in US as poor while for the middle class it is from \$10 to \$100 a day.

Despite some studies regarding the middle class, there is still no clear cut clarification as to what can we call basically the middle class? In such a globalised economy it is still

ambiguous defining the criteria called the comfortable standard of living. According to Lopez- Calva the question really comes down to their factor what is basically the tripping line. Like for example instead of level of income the possession of some property, security level of job security, educational and skill attainment can also be a reason for his fall to lower subsistence level. Another thing to be kept in mind is the enquiry about the basic requirements of an individual person that so to enable an upward movement along the scale of middle class. According to Banerjee and Dufflo these can be determined by the differences in wealth, the level of education and parental occupation. According to Fernandes there has also been a change lately among the middle class of their social behaviour the credit to which goes to westernisation. Along with this there tastes and preferences have also changed with other effects.

Before moving forward lets understand why this topic is so necessary to study this topic. With the high speed developments the society as a whole has changed where the poor and rich were the only terms considered earlier, now the term middle class is also on the dart boards of the governments. Now the large number of population that is now considered as the middle class constitutes the pillar of the society. But even after several years of independence the situation of the middle class has not improved rather what has improved is the burden on them. The voices of the middle class has always been muffled and ignored. Their lives have been overburdened with the constant tax hammering of the government. The whole situation has turned so foul that the while the middle class relies on the government to empower them the government in return basically exploits them taking advantage of their helplessness.

Some of the important facts are –

- The population of India middle class society is 1.2 billion which constitutes half of the population. The biggest growth is that of the lower middle class who spend about from Rs. 150 to Rs. 400 per day.

¹ Lester C. Thurow, The Disappearance of the Middle Class, *the New York Times*, Feb. 1984.

- With the surging population, India is expected to overtake China becoming the most populous country on the planet earth.
- India's middle class households with high disposable income have surged twenty fold. The number of household with a disposable income of more than \$10,000 has surged to 50 million in 2015.
- Since 1991 India's economic reforms, there has been found a stabilisation of nation's annual GDP at 6 to 7 percent per year.
- The most amazing thing about India lower middle class is that it includes carpenters, street vendors, drivers, etc. These are the areas which have the lowest barrier entry and the poor class can easily move up with some effort pushing the consumption of goods and services in the country.
- It is observed that India's middle class will be 41% of the population by 2025.

Objective

1. To determine the tax burden on Middle class income group compared with other income group.
2. To study tax incidences.
3. To study tax effect on individual, salaried income taxpayer.
4. To study tax effect on GDP.

Research Methodology

This research paper is based on secondary data. Various figures are obtained from the different website of the government of India. Various websites, newspaper, books, journals online source and reports were used. Further data and stats were analysed in order to fulfill the objective of the study.

Social Class System

The term class was used firstly in the early 19th century, replacing such terms as rank and order as major hierarchical groups in society². If looked upon every society has large differences in the wealth people own, the materials they have, the power, authority, prestige, healthcare, quality of education and the lifestyle the people have. The difference is much more prominent in a country like India one of the most populous countries.

When sociologists discuss about social class they mean a group of people who are basically occupy or have a definite position in the economic system of production. Although the sociologists divide the class system in 5 groups in India the social class system basically divides the population on four levels and they are -

1. Upper class –

Basically these are the people who have an exorbitant amount of money. These include the super-rich like Bill Gates, Warren Buffet, Jeff Bezos, etc. In other words they represent the institutional Leaders, heads of multinational corporations, foundations, universities and capitalists elite.

Forbes magazine publishes the list of the wealthiest families and these people are basically considered to be the roman gods of wealth.

2. Upper Middle Class –

They are basically consisting of engineers, doctors, accountants, lawyers, architects, university faculties and managers, directors of public and private companies. There is a sheer difficulty of separating the upper middle class and the lower middle class as their lifestyle is pretty similar.

3. Lower Middle Class –

This includes carpenters, street vendors, drivers, paralegals, craft workers, labourers, nursing home staffs, delivery services, repairers, etc. They are the ones that provide help to the professionals.

4. Poor Class –

They are the people who work full time at wages below the poverty line. These include the social services and the underclass. The definition is really illusive and difficult to define.

The Definition of Middle Class

As the name suggests this class basically falls in the middle of the hierarchy and occupies a socioeconomic position between the poor and the rich class. Every nation has its own definition for the middle class. This depends on various factors such as purchasing powers, education levels, perception of who are in the rich class, etc are some of the factors that determine the middle class in any given country. According to organisation like world bank and he organisation for economic Cooperation and development , people who live on less than \$2 a day are basically considered poor whereas the middle class, the earning are somewhere between \$10 to \$100 a day, as expressed in 2015 purchasing power parities.³

Now the reason for high numbers of the middle class is because of the exorbitant growth in the spurting markets. The whole and sole credit to this situation goes to the Liberalisation and globalisation policies. While the Global Wealth Report 2014 stated a smaller number which is 1 billion the OECD estimates the middle class population to be 1.8 billion in individuals. From 1990 to 2005 the middle class grew from 15 percent to 62 percent the numbers in India reached has reached 50 percent of the population.

The Middle Class in India 1947-1990

India gained independence from Great Britain on 15th of August, 1947. The population of the country at that time was 300 million. The first census in 1951 showed that the population at 361 million, growth of 13.3 percent since 1941. At that time the country was fighting with the after effects of independence and was trying to recover from the religious strife.⁴ The world bank at that time estimated India's GDP at \$317 billion and GDP per capita at \$364.

The country was ruled by only one single party and that was Congress (The Nehru Party) except for some time that was 1977-1980. The policies at that time were basically a copy of that of the USSR which prohibited the foreign companies form coming into the country and the private enterprises were not a priority. Most of the industries were protected from outsiders and were allowed to grow. The result was obvious the GDP that was around 4.5 during the time of independence dropped down to 3.4 and the per capita averaged around 1.3 percent annually.

At the same time the situation in other Asian countries like South Korea and Taiwan improved as they grew at a very high rate which was at 10 and 12 percent respectively, while

³ Luis F. Lopez- Calva & Eduardo Ortiz-Juare, A Vulnerability Approach to the definition of Middle Class, The Journal of Economic Inequality 12, no.1 (2014): 247-273.

⁴ Sarah Ansari, How the Partition Happened- and why its effects are still felt today(Aug. 11, 2017, 3:27 PM), https://www.independent.co.uk/news/long_reads/how-the-partition-of-india-happened-and-why-its-effects-are-still-felt-today-a7888131.html

² The editors of Encyclopaedia Britannica, Social Differentiation, Social Class(Nov.18, 2018), <https://www.britannica.com/topic/social-class>

country like India still preferred to go with the regular central planning. The population of the middle was relatively small at this time which was just 11.2 million in 1971.

With the advent of the 1970s there came the mixed economy with the private sector adding a few jobs as well. The colonial and retro middle class from the old ones transformed into new ones, who were basically defined in terms of consumption as the country slowly moved into the new market led or so called capitalist economy.⁵ The use of democratic socialism for four decades failed totally. This basically led to the pitfall of the middle class as for still forty years they were basically still called that middle class. The real story began in 1990's when India adopted the free policies.

The growth of middle class

In 1991, the Indian market was opened for the world after the Indian Government (then the congress national party), began operating up markets and launched the economic liberalisation programme.⁶ The important growth can only be attributed to the incentivisation of private capital investment and opening the doors of economy to foreign investors. The total population of middle class at that time was basically 30 million which was less than 1% of the population. The percentage of middle class population basically grew to 5% in 2004.⁷

Until 1990's, GDP of India was basically at 4% per annum. While other countries were enjoying a much higher rate which was basically 7-8 percent. Like for example South Korea had a long term GDP growth when contrasted with India's by quadruple. After the LPG policies the GDP rate remained constant at 6-7 percent for every year.

The boom period of the middle class when their population grew was at 300 million to 600 million. According to Deutsche Bank research the population of the middle class surged to somewhere between 300 million to 600 million. In 2015 alone the people living below poverty line was 19 percent. The Indian Household rates that time also tripled from 2005 to 2015 out of which many of them had significant disposable incomes. According to Euro Monitor International National statistics the disposable incomes of the households rose twenty fold in twenty five years from 2.5 million to fifty million in 2015.⁸

The major economists in Mumbai University, India said that the middle class of India spends almost around \$2 to \$10 daily.⁹ If this statement is followed then the total population of India's middle class will be around 1.3 billion. As stated earlier the lower middle class basically contains people with jobs like carpenters, Drivers, etc. Sectors like these basically have low barrier entries and anyone who wants to push up his/her life from the shackles of poverty line to middle class

can easily move into the groups i.e., the middle class group. These groups have basically a third of their income left with them for consumption of goods and goods only nothing else. This in turn drives up the economy.

With the coming up of the elections the BJP government came to power in 2014 with the majority of votes. The whole atmosphere of India changed as they promised to provide jobs, bring back black money and look after the middle class. One after every election they basically started winning leading to a massive control over the legislation. This government was special to the middle class as they wanted a change and that was the freedom from the corruption, freedom from the socio-political imbalance and freedom from the shackles of tax that was imposed on them.

The Future Growth of Middle Class

The population growing rapidly to great heights. It is expected to cross China's population. Whereas the middle class is also expected to grow rapidly in the next decade. It is expected that by 2027, India's middle class population will surpass that of the China, Europe and America combined. Multinational professional services firm Ernst & Young has predicted that India's middle class population will be that of 200 million by 2020 and by 2030 it will be around million. The Economist has also predicted that that the jump from poverty line to middle class in India will be really high. The expansion of middle class will also increase the consumption of the goods and availing of the services. Moreover this in turn will increase the outbound tourism from India boosting up the other countries foreign tourism this is expected to be around \$45 billion by 2022.¹⁰

GDP and the Indian Economy

India has a magnificent economy. Indicator of the economic growth of any country is the GDP. Gross domestic product is the representation of the ups and downs in per capita income of the country. There are various methods to calculate GDP and it differs from country to country. Though the most common methods are –

- First approach is the calculation by expenditure. In this the GDP is calculated on the basis of the expenditure. The way to calculate is -

$$\text{GDP} = \text{CONSUMPTION} + \text{GOVERNMENT SPENDING} + \text{NET EXPORTS (EXPORTS-IMPORTS)} + \text{INVESMENT.}$$
- In second approach it is calculated on the basis of ink that is the country's total expenditure is spent should be equal to the income generated by that particular country.
- The Third approach says monetary value of the goods and services produced in a specific period of time by a particular country is the GDP.

It is further to be kept in mind the revenues of the country must also be in excess than the expenditure. As taxes and the vital source of revenue for any government they are really necessary to provide the public the benefits and the services. There are two types of tax systems in India any collection of taxes. The first one is the direct tax which includes personal or income tax and corporate tax. The another one is the indirect tax this includes, sales tax customs excise duties and service tax. When any government designs the tax structure they keep in mind that the socio economic objectives is met.

⁵ Surinder S. Jodhka & Aseem Prakash, *The Indian Middle Class: Emerging culture of Politics and Economics* (KAS International Reports) (2011).

⁶ Leela Fernandes, *India's New Middle Class: Democratic Politics in an era of economic reform*, Minneapolis: University of Minnesota Press, 2006.

⁷ Pavan K. Varma, *The Great Indian Middle Class* (Delhi: Penguin books India) (2007).

⁸ Euromonitor international, (Oct.5, 2017), www.tinyurl.com/79xgdch

⁹ Sandhya Krishnan & Neeraj Hatekar, Rise of the middle class in India and changing its structure, *Economic and Political Weekly* 52, no.22, 40-48 (2017).

¹⁰ India Outbound Tourism Market: Outbound Tourists, Purpose of visit, Tourist spending and forecasts, *research*, 3rd Edition (Sept. 13, 2017)

The most progressive in nature is the direct tax because they basically increase the proportion of income of individual and corporates. Whereas indirect taxes are stiff as it differs from person to person depending on their economic activity.

Sector Wise Contribution in GDP

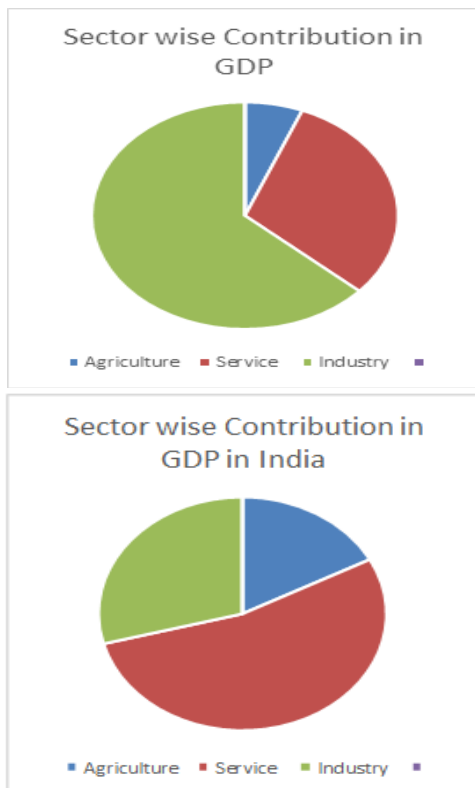
Contributions to GDP are defined into three fields – Agricultural, Service and the Industry sector.

Agricultural Sector: This sector contributes 6.1 % of the world's economy. Among the top contributors in this field are China and India. Total Production in this sector is \$4, 771, 420 million. Being the largest economy USA occupies the third spot. Apart from these countries Brazil, Nigeria and Indonesia altogether have 42.43 percent of the share.

Industry Sector: The total contribution of the industry sector to the GDP is 30.5 percent. China has the first spot in this field followed by USA and Japan.

Services Sector: Service sector is the largest in the world. It is total of 63.5 percent of the total global wealth United States stand top in line in service sector which is basically a whopping 13.5 trillion USD.

In India the GDP composition for the year 2016-2017 was, Agriculture 17.32%, Industry 29.2% and services 53.66%. The total production of agriculture alone \$366.92 Billion. In service sector India is at the 11th position with a total of \$1185.79 billion and the industry sector at \$495.62 billion.

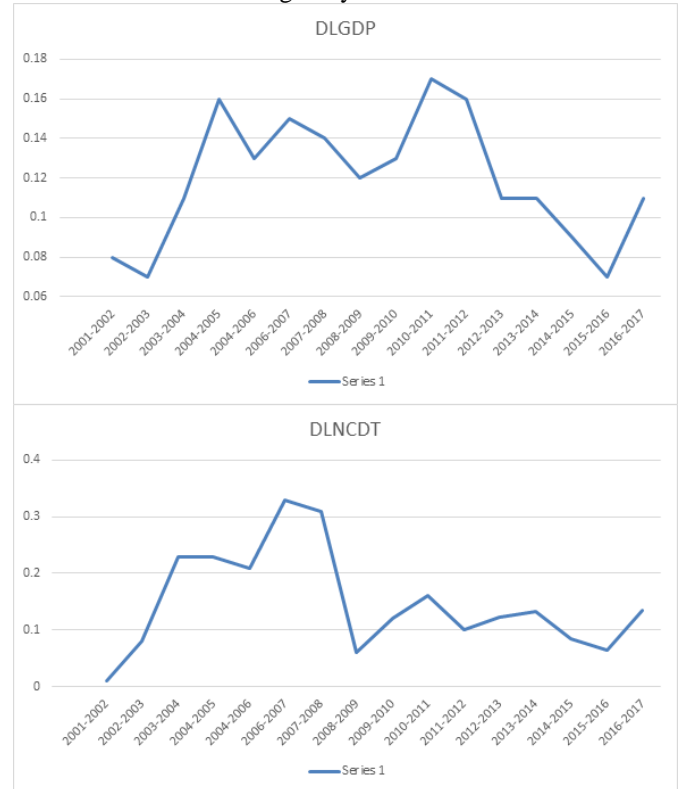


Growth of Direct taxes and GDP

Direct taxes are taxes which basically increase in proportion to the income of the individuals and organisations or companies. The income tax of a salaried class is collected on aggregate income from salaries, profession, capital gains, property, etc.

In year 2000-2001 the direct taxes contributions were Rs. 68, 305 billion constituting to 3.25% in the GDP of Rs.21, 02, 376 billion. In the above graph its quite obvious that there was a fall of direct taxes in 2008-2009, which in turn directly affected the growth of GDP. Again in 2012-2013 the direct tax revenue was at Rs.5,58 898 billions which has an increase

in the contributions to the GDP at an increasing rate of 5.48%. This rate has marginally continued till 2016-2017.



- DLGDP- Represents first difference of log GDP
- DLNCDT – Represents difference of log net collection

Tax Incidence

It is basically studying about who bears the economy of the tax. In layman terms it is the analysis of the impact of the taxes on the distribution of welfare within a society. It is based on the incidence. For example if tax is imposed on the person then the person has no way that he/she can shift the burden on someone else on the other hand if the tax is imposed on any commodity and if the producer has decided about it that the burden of tax shifts on the consumer. To be clear we have to remember the most important thing and that is Statutory Liability of tax. In statutory liability of tax there are two things –

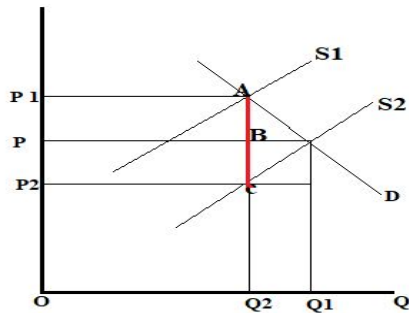
Impact of tax–The impact of tax is basically that the producer has to basically pay the tax. This is the result of or the original imposition. In other words this is the person on whom it is imposed first. Thus the person who pays the tax first is the bearer of the impact of tax.

Incidence of Tax–This happens when the tax finally settles or comes to rest ultimately on the person who bears it. This is the result of the shifting.¹¹This in another term is actually the person who bears the burden.

There is also something to be noted and that is Incidence of tax on a person depends on the residential status of the person and also on places and time of accrual or receipt of income.

Let's understand this by demand supply schedule.

¹¹ Auerbach, A.J. and J.R. Hines (2001), Taxation and Economic Efficiency, Handbook of Public Economics, Vol. 3 (Elsevier Press, Amsterdam).



Here,

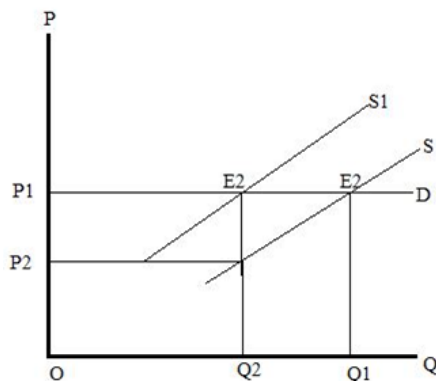
- D = Demand
- O = Supply, Q = Quantity
- X = Price
- Q1 = demand and supply equal
- S = supply curve
- S1 = Supply Curve after Tax
- Q2 = Supplier supplying goods after tax
- P1 = price after tax
- P2 = Price the producer gets.
- AC = TAX
- AB = buyers share
- BC = Sellers share

In the above mentioned demand supply schedule P is the proceed when the government has not imposed any tax and Q1 is the Quantity.

Now supposed the government has imposed tax per unit tax. Per unit tax is the tax imposed per unit for example if the amount of per unit of goods is Rs.2 then the per unit tax will be Rs.2 then the supply curve will run parallel. Now S1 will be the supply curve after new tax. These points intersect at E and E1 now the quantity will be Q2. The price the seller will get then is P2. After this the red are is tax. Then AC becomes the tax and AB is the buyers share and BC is the sellers share. So now the tax is shared between the buyer and the seller.

Example 2 – When demand curve is elastic

In the below fig when the demand is elastic. We can see the supply curve s and the supply curve S1 after tax. We can see that P1 and P is the tax. In this we can also see that the buyer has to bear nothing and the tax burden is only on the seller.

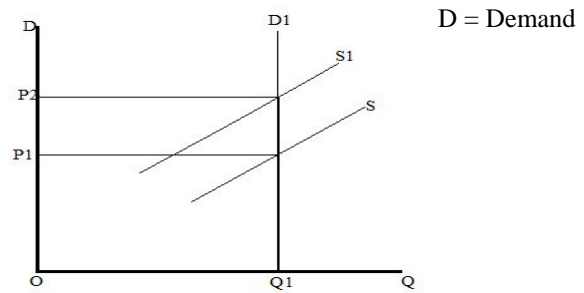


- Here,
- Q = Quantity
- D = Demand
- S = Supply curve
- P = Price which the producer gets
- P1 = Price which the producer wants
- Q1 = Pretax quantity
- S1 = After tax supply curve,
- Q2 = Quantity

Example 3

When Price is perfectly elastic

When the price is perfect is [perfectly elastic it means that the fluctuations in the price does not affect the demand at all. it will be the same.



- O = Supply
- Q = Quantity
- Q1 = Quantity
- P1 = price which the producer pays
- P2 = Price after tax
- S = Supply curve
- S1 = supply after tax
- P2P1 = tax which the buyer has to pay

In the above mentioned graph we can see that the buyer bears the whole burden of tax.

So the basic conclusion that we can draw from these is that the incidence of sharing between the buyer and seller basically depends on the ratio of supply and demand.

$$\frac{\text{Elasticity of supply}}{\text{Elasticity of Demand}} = \frac{\text{Buyers share of Incidence}}{\text{Sellers share of incidence}}$$

From this equation we can make out what is the ratio of burden shared by the buyer and the seller.

Impact of Indian Tax System on Economy

The Indian tax system has basically undergone tremendous changes today. The way to raise the revenue is the tax and at the same time it is the scale for measuring the economic growth of the country. The whole credit here basically goes to the globalisation and the government is paying full attention to liberalize the economy while also covering up the loopholes so that evasion of tax is not a problem.

Indian Taxing System

Since 2017 the Indian taxation system has undergone tremendous reform. Earlier the taxing system included the customs duty, excise duty, VAT, service tax and all. Now the taxation system has changed. Now the government levies taxes on income except agricultural, customs duties, Central Goods and service tax and integrated goods and service tax.¹²

Different type of taxes

1. Direct Tax
 - Income tax
 - Corporate Tax
 - Gift tax
 - Interest Tax
 - Expenditure Tax
 - Agricultural tax

¹² Ghuge, Nishant & V.V Katdare, Dr. (2015). INDIAN TAX STRUCTURE- AN ANALYTICAL PERSPECTIVE. International Journal in management and Social Science. 3. 242-252.

- Land Revenue
- Estates Duty
- Land revenue
- Hotel Receipts Tax
- Others

2. Indirect Tax

- GST
- VAT – state level only for liquor consumption
- Excise Duty – Now only limited to few products such as High speed diesel, petroleum products etc.

The impact of direct taxes on economy

The direct taxes are one of the biggest sources for the government. It also impacts the disposable income of the individuals. If the rate of tax increase people start saving for investment because of this the income generation process of the individual is hampered. . Particularly this holds true for the luxury items. The decrease in the production of the luxury items also impacts the GDP. On the positive side it can also lead to capital formation in the country. The benefits of Direct taxes on economy are –

- Habit of saving
- Government revenue growth
- Increase in planned expenditure
- Decrease in rate of inflation
- Timely availability of resources
- Capital formation

Impact of Indirect Taxes on the Economy

As these fall directly on the consumers, the impact is on the cost of goods and services. Thus indirect tax increases the efficiency on the producers, since they have to put their full effort towards cost cutting measures. Further, the effort of producers also brings proper utilisation of resources in the economy. There is the freedom to select the products at their choice inversely leading to increase in the economy. Thus following are the positive traits of indirect taxes on the economy –

- Increase in standard of living
- Increase in demand of luxury goods
- Healthy competition in the economy
- Freedom of choice to the consumers
- Efficiency of producers increases

The Indian Middle Class and the Tax Burden on them

The middle class train in India will lose the steam if the private investors do not take off and new jobs are not created and that is unlikely to happen anytime soon. The Modi government came to power with the strong redolence that they will lower the burden on the middle class. It was an all-out march as the middle class basically gave the full support to the BJP Government and with that came the historic win for the government.

Presently the middle class has to bear the greatest burden of everything from rules, regulation, social norms, to the burden of taxes and god knows what not. The weight of burden on the middle class is exorbitantly great. Basically any person wants the hurdles of his/ her life to be removed and the same goes for the middle class. The middle class basically wants for the burden to be reduced.

Where we see all the modern economies have progressed by creating ample jobs and increasing the middle class whose consumption then becomes the main growth driver. If the calmness in economy is there it's just because of the middle class. Yet now the middle class bears a large burden and is unlikely it won't sustain for long.

Fiscal Deficit	80.8% of the budgetary estimates
Primary Deficit	Up 1314.4%
Market borrowing	64%
INTEREST RATE	
PPF	7.8%
Kisan Vikas Patra	7.5%
Senior Citizen saving scheme	8.3 %
Gross fixed capital formation	29.5%
PRIVATE CONSUMPTION	
2016-2017	Rs.68.07 lakh crore or 55.8% of the GDP
2015-2016	Rs.62.62 lakh Crore or 55%

The poor in the country are under the illusion that basically rich people bared the impact of demonetisation but it was the middle class which basically bore the brunt in the hope of a corruption free financial system.

While businessmen were reluctant to invest in projects and continued to cut their costs, the middle class basically continued to spend on clothes, vehicles and durables keeping the economy basically running. The middle class kept on bearing the brunt of the government. This class never made a sound when the savings interest rates were brought down.

NR Bhanumurthy, Professor at the National Institute of Public Finance and policy says “ At the very moment, the middle class is the sole pillar of the economy. It's their saving that are financing the government.”¹³

After the continuous resisting pressure from the government to cut the rates over, the central bank finally in 2017 eased the rates by 25 margin basis points. They basically listed many factors upward pressure prices indicating that it remains protected from the slightest inflationary provocation.

The 25 basis point are appears to help nobody except the government. Business sentiments are subdued and private investors are not putting any money on the ground. This is to continue.

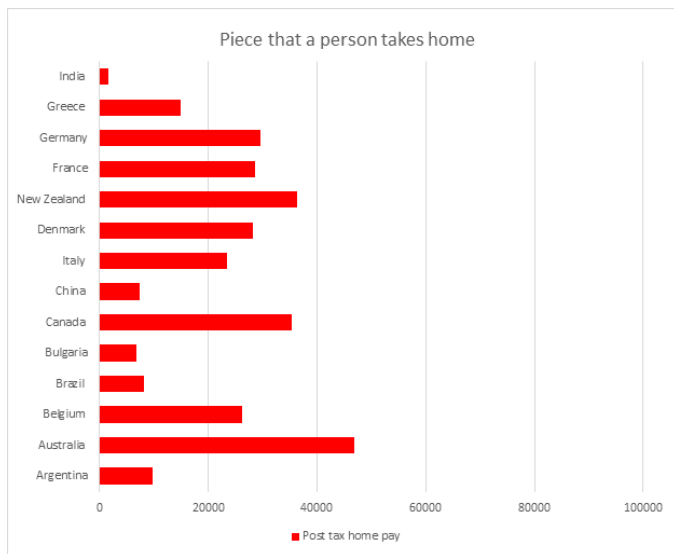
According to survey the of Pricewaterhouse Cooper (PwC) found out that the take home salary of a high earner in India is less than that of salary earners in the U.S, Russia, China, Canada, etc.

As other countries improve, the capital flight from India increases. The government has to improve the private capital to increase the livelihoods and the jobs of the people. The bank balance sheets have to be cleaned up faster and they need to be capitalised so that they can be used to fund entrepreneurs again. Otherwise the middle class will get stumped by the burden.

The below mentioned graph shows what the shows the post-tax rate home pay. After thorough search we can see that the post-tax rate home pay for countries like India is very low while that of countries like Australia is really high.

¹³Dinesh Narayan, How the long-suffering middle class has kept India running, and why they urgently need a bailout, Economic Times, (Aug. 08, 2017, 09:52 AM), <https://economictimes.indiatimes.com/news/economy/indicators/is-indian-middle-class-responsible-for-keeping-the-economy-ticking/articleshow/59960731.cms?from=mdr>.

Argentina	\$9638	Italy	\$23,510
Australia	\$46,781	Denmark	\$28,227
Belgium	\$26,221	New Zealand	\$36,283
Brazil	\$8,177	France	\$28,503
Bulgaria	\$6,822	Germany	\$29,658
Canada	\$35,299	Greece	\$14,967
China	\$7,247	India	\$1670



Source: info.caprelo.com

The above picture shows is data which was examined by CapRelo and after converting the currencies to their equivalent to the rate at which the average worker can hope to make around the globe.

Salaried Class

According to the Free Dictionary-

Salary is fixed compensation paid to a person for services, paid to a person on a regular basis.

The term Salary has been defined under Income tax Act, 1961

According to section 17(1) of the act this includes the following –

- i. Wages
- ii. Any annuity or pension
- iii. Any gratuity
- iv. Any fee, commission, perquisite or profit in lieu of salary or in addition to salary or wages
- v. Any advance of salary
- vi. Any payment received by an employee in respect of leave not availed by him
- vii. The portion of the annual accretion in any previous year to the balance at the credit of an employee in respect of any period not availed by him
- viii. The portion of annual accretion in any previous year to the balance at the credit of an employee participating in a recognised provident fund to the extent that it is taxable
- ix. Transferred balance in a recognised provident fund to the extent that it is taxable
- x. Contribution by the central Government to the account of an employee under a pension scheme referred under the section 80CCD.

This has to be differentiated from Wages as there is a very thin line of difference. Wages are what any person receives at the hourly rate or as a fixed wage and is taxable under the head salary. Gratuity and retirements benefits are provided to the employee by the employer and is also taxable.

In layman terms it is basically any sum an employee receives during the term of his service.¹⁴

Salaried Class Definition -

Well there is no clear cut definition of the salaried class. This is just another term for salaried employees and their income is assessed under “Salaries”. The basically constitute the group who bear the heaviest burden of tax. Salaried employees are people who make a fixed amount of money for a given multi day period.

Why salaried people still bear the brunt

Data shows that there is a massive gap between in the IT department where there is massive gap between the salaried and non-salaried. It also claims that there is a 68%rise in the individual crorepatitis. Specially in last four years the efforts to widen the tax has been up amounting to 80%jump in return filed.

In 2017's count the no. of doctors in the country who paid income tax were less than half of it. In this case the CA, who advised incomes and companies on tax matters, one in three paid income tax. While there are nursing homes every few km, only, 13,000 paid taxes. In fact, their number is less than the number of fashion designers paying income tax. Data by the IT department shows a massive gap whose are deducted and on the non-salaried.

	Salaried		Non- salaried	
	2013-2014	2016-2017	2013-2014	2016-2017
No. of tax payers	1.7	2.3	1.9	2.3
Avg tax paid (Rs. Lakh)	5.8	6.8	4.1	5.2

Well in the last several years there has been a major push from the government to widen the tax base resulting in 80% in the no. of returns filed. The IT department claims a 68 % rise in the individuals who are crorepatitis.

At 5.2 lakh a year, the annual income of the non-salaried is around 75%of the salaried taxpayers, which basically is Rs.6.8 lakh. The number of salaried taxpayers is growing at a very fast pace that is basically 2.3 crore.

Tax and Income Group

Tax system in India has undergone through revolutionary change. Tax is one of the important aspects of economical growth of the country as it is the vital source of revenue to the Government. There are two sources of Tax, one is Direct tax and other is indirect tax. Direct tax impacts directly on the income whereas indirect tax impacts prices of goods and services in the market.

There are 62 millions households in Rich India, 164 million in Middle India, and 44 million households in poor India.

A tax incidence is an economic term, which helps in determining that who ultimately bears the burden of tax. It establishes who and in what proportion bears the final burden of the tax.

Well off professionals pays little amount of tax when compared to salaried class who generally falls in middle income group and are classified as middle class. Higher income group files tax returns that reflect their income ranging between 1.5 lakh rupees to 5 lakhs a year.

¹⁴ Income Tax, How salary is defined Under The Income Tax act (May.9, 2014), <http://yourfinancebook.com/how-salary-is-defined-under-income-tax-act-1961/html>.

More than half of Indian's 3.4 crore income tax payers contributes insignificant amount as tax. Around 1.5 crores tax payer which mostly include the salaried class, according to senior official of Income tax department.

Well earning independent professionals, such as chartered accountants, lawyers, doctors, big business man, shopkeeper and wholesales traders make very large income but virtually there contribution towards net tax collection is not proportionate to their actual income. They do this by manipulating the books of accounts with the help of a chartered accountants and lawyers.

Elite class professionals and traders live a lavish lifestyle but are reported to be filing tax returns that reflect their income from mere Rs 1.5 to Rs 5 lakh a year. Senior IT official said "These assesses have been showing withdrawals from their bank accounts of a partly Rs 10,000 or so to run their monthly expenses but they have big cars and house, which does not make any sense,".

A Master card subsidiary has mentioned in their report that middle 60% of the income spectrum in the country are capable of helping the country's economic growth to 8-10 % range a year. However, the majority of people in middle class income group are either lower class or poor class, and if this segment is ignored then the domestic demands is unlikely to be strong enough to help drive the country's growth

acceleration.¹⁵ Therefore middle class is capable of supporting the governments ambitious to increase GDP growth rates.

Data Interpretation to Determine Tax Paid by Different Income Group

As we compared the tax returns filled and tax paid by the different income group, we found some well-established facts:

1. India's tax base is around 1.5 crores tax payers.
2. Chartered accountants, lawyers, doctors, big business man, shopkeeper and wholesales traders are those income class that pays negligible tax.
3. Cars and other items are bought in the names of business entities.
4. To evade taxes some business man reported losses in their account books.
5. The IT department does not have the manpower or resources to chase all tax offenders.

We can conclude that the elite class of this country is paying peanuts.

Direct Tax and GDP¹⁶

The data reflects constant growth in Direct tax-GDP ratio

¹⁵ Report by Mastercard Center for Inclusive Growth, an independent subsidiary of the financial service firm.

¹⁶ Income Tax Department Time Series Data Financial Year 2000-01 to 2014-15

Financial year	Net Collection of Direct Taxes	GDP Current Market Price	Direct Tax GDP Ratio	GDP Growth Rate	Tax Growth Rate	Buoyancy Factor
2000-01	68305	2102376	3.25%	7.7%	17.85%	2.32
2001-02	69198	2281058	3.03%	8.5%	1.31%	0.15
2002-03	83088	2458084	3.38%	7.76%	20.07%	2.59
2003-04	105088	2754621	3.81%	12.06%	26.48%	2.19
2004-05	132771	3242209	4.1%	17.7%	26.34%	1.49
2005-06	165216	3693369	4.47%	13.92%	24.44%	1.76
2006-07	230181	4294706	5.36%	16.28%	39.32%	2.42
2007-08	314330	4987090	6.3%	16.12%	35.56%	2.27
2008-09	333818	5630063	5.93%	12.89%	6.20%	0.48
2009-10	378063	6457352	5.85%	14.69%	13.25%	0.90
2010-11	445995	7674148	5.81%	18.84%	17.97%	0.95
2011-12	493987	9009722	5.48%	17.4%	10.76%	0.62
2012-13	558989	10113281	5.53%	12.25%	13.16%	1.07
2013-14	638596	11355073	5.62%	12.28%	14.24%	1.16
2014-15	695792	12541208	5.55%	10.45%	8.96%	0.86
2015-16	742295	13567192	5.47%	8.18%	6.68%	0.82
2016-17	849713	15253714	5.57%	12.43%	14.53%	1.17
2017-18	1002741	16773145	5.98%	9.96%	18.03%	1.81

Number of Tax Payer¹⁸

Category	AY 2013-14	AY 2014-15	AY 2015-16	AY 2016-17	AY 2017-18
AOP	141,533	160,116	180,715	205,598	224,399
BOI	6,304	7,077	7,518	8,687	9,290
COMPANY	704,473	748,173	769,425	811,309	838,174
FIRM	1,042,649	1,092,692	1,161,163	1,254,193	1,316,305
GOVERNMENT	240	357	510	763	1,313
HUF	964,277	1,003,089	1,058,504	1,121,578	1,136,853
AJP	10,273	10,629	11,146	11,720	11,501
LOCAL AUTHORITY	6,027	7,188	7,591	8,356	9,093
INDIVIDUAL	49,711,477	53,911,494	58,094,614	65,598,364	70,319,448
AOP(TRUST)	206,289	217,996	232,513	253,266	260,874
TOTAL	52,793,542	57,158,811	61,523,699	69,273,834	74,127,250

Abbreviation

AOP: Association of Persons

BOI: Body of Individual

HUF: Hind Undivided Family

AJP: Artificial Judicial Person

over last three years and ratio of 5.98 per cent in the financial year 2017-18. And last three financial years reflects the best growth in last ten years. Under direct tax category there has been continuous growth in the amount of income declared in the ITR¹⁷s filed by all the category of taxpayers over the last three assessments.

As given in figure the above the total number of tax payers in India including all the category of persons on whom tax is levied in last five year are 52,793,542, 57,158,811, 61,523,699, 69,273,834, 74,127,250 respectively for Annual year 2013-14, 2014-15, 2015-16, 2016-17, 2017-18. It reflects a good growth in term of number of taxpayer, as number of Taxpayer is directly proportionate to the number taxpayer. More the number of taxpayer more will be the revenue for the government. The average tax paid by individual taxpayer increased from Rs 46,377 in Annual year 2014-15 to Rs 58,56 in Annual year 2017-18, which is an 26 per cent increase.

Income Tax Return of Salaried Income

Between 2014-15 and 2018 assessment years (AY) , the number of salaried and non- salaried taxpayer have increased in the country. The number of salaried taxpayer increased from 1.70 crore (Assessment year 2014-15) to 2.33 crore (AY 2017-18), which is a rise of 37 per cent. The

¹⁷ Income tax Returns.

¹⁸ A “ Taxpayer is defined as a person who either has filled return of income for the relevant Assessment Year (AY) or in whose case tax has been deducted at source in the relevant Financial Year but the taxpayer has not filed the return of income.

¹⁹ According to data released by CBDT.

average income declared by the salaried taxpayer have boosted up by 19 per cent from Rs 5.6 lakh to Rs 6.84 lakh.¹⁹

Salary Income is the income under the head “Salaries” as computed in the return of income. The “Sum of Salary Income” is the sum of salary Income of all returns within the value range slab. The “Average salary Income” is the average salary Income within the value range slab. Salary Income divided by total number of returns within the value range slab.

Conclusion

Various factors in India lead to the situation where basically the middle class that includes all salaried, self-employed people etc bear the brunt of tax. Even though the rich class has it all they don't pay even half of the equivalent tax that the salaried class pays.

Where India is a country which is most admired for its fast developing economy the middle class is the one that is actually the pillar of it without them the country is doomed.

It's not just about one party or one ideology of the country. There are problems that are visible in our country this problem i.e. the brunt that middle class bears is never spoken of. Parties come and go and wash away with the onset of time just bringing false hopes and expectations for the middle class. Moreover due to its helplessness this middle class or what we call the salaried class never gets what they desire.

The government in 2019's budget basically has given them the candy bar for luring the middle class for votes. The thing to be most horrified about is that will it sustain or is it just another false promise ?

Nobody knows for sure when the plight of the middle class will end and when will they be recognised as a pillar of the community. The burden on them has increased so much it's just unimaginative how this pillar is still holding up the economy and how much can it bear ? Will this be forever or will it change ?

Income Range (in INR)	No. of Returns	Sum of Salary Income (in Crore INR)	Average Salary Income (in Lakh INR)
< 0	-	-	-
= 0	2,65,69,554	-	-
>0 and <=1,50,000	17,45,878	15,885	0.91
>150,000 and <= 2,00,000	9,95,266	17,686	1.78
>2,00,000 and <=2,50,000	13,13,975	29,987	2.28
>2,50,000 and <= 3,50,000	30,09,390	90,524	3.01
>3,50,000 and <= 4,00,000	15,93,322	59,774	3.75
>4,00,000 and <= 4,50,000	16,86,545	71,774	4.26
>4,50,000 and <= 5,00,000	16,67,740	79,133	4.74
>5,00,000 and <= 5,50,000	13,71,113	71,935	5.25
>5,50,000 and <= 9,50,000	63,24,662	4,48,121	7.09
>9,50,000 and <= 10,00,000	3,55,535	34,644	9.74
>10,00,000 and <=15,00,000	17,72,799	2,11,894	11.95
>15,00,000 and <= 20,00,000	6,20,316	1,06,799	17.22
>20,00,000 and <= 25,00,000	3,18,262	70,837	22.26
>25,00,000 and <= 50,00,000	3,85,446	1,27,731	33.14
>50,00,000 and <= 1,00,00,000	97,120	65,885	67.84
>1,00,00,000 and <=5,00,00,000	39,203	68,683	175.20
>5,00,00,000 and <=10,00,00,000	1,615	10,818	669.85
>10,00,00,000 and <=25,00,00,000	526	7,579	1,440.87
>25,00,00,000 and <=50,00,00,000	88	2,934	3,334.09
>50,00,00,000 and <=100,00,00,000	23	1,581	6,873.91
>100,00,00,000 and <=500,00,00,000	2	283	14,150.00
>500,00,00,000	-	-	-
TOTAL	4,98,68,380	15,94,487	

Source: Income Tax data statistic Assessment year 2017-18

The question comes down to this what does the middle class desire?

Well as any prudent common man would want is to have a life where they get to contribute to the economy fairly and impartially and also have something for themselves. This something is not a opulence that they want. What they want is

just a simple food, clothing, shelter and nothing else but the cruel political ploy in our country has just bound them and has made more weaker than ever.